

UTAH ENTERPRISE ZONES

Report to the Legislature

October 2004

Prepared by the Utah Division of Business and Economic Development

The Utah Enterprise Zone Program was established in 1988. The program provides tax credits, primarily for job creation and new investment in plant and equipment, for eligible companies locating in areas designated as enterprise zones. The Legislature has amended the program several times since then, most significantly in 1996. For information about designation eligibility, the application process and claiming tax credits, see Attachments B through D. Retail businesses and public utilities are not eligible to claim tax credits under this program. Construction jobs are also ineligible. All other businesses located within an enterprise zone may claim credits. The Utah Enterprise Zone Act is found in Utah Code Annotated Title 9, Chapter 2, Part 4.

In 1997 seven zones were designated under the 1996 law. During 1998 an additional eleven new zones were designated, and in 1999 ten were added. In 2000, fourteen new zones were created and an expansion of an existing zone was approved. In 2001 two new zones were approved and in 2002 five new zones were approved and eight designations were renewed. In 2003 six new zones were designated and nine were renewed. Existing zones are listed in Attachment A. The zone expires on the date shown in parentheses. The term of a designation is five years. More information is available on the web at "dced.utah.gov".

EVALUATING THE ENTERPRISE ZONES

An effective evaluation of the Utah Enterprise Zone Program requires data about the number and types of businesses claiming enterprise zone tax credits and the amount and kind of tax credits claimed.

Data provided by the Utah State Tax Commission, up to the most recent year available, is shown below. Data for the 2003 tax year will become available in November or December of this year. In order to comply with confidentiality laws, the Tax Commission restricts information that could reveal the identity of a specific taxpayer. For county information, there must be at least ten tax returns submitted for selected information about a limited group. For instance, in order for the Tax Commission to release any data, there would need to be at least ten returns claiming a specific credit from each county for which information was requested. For statewide information the requirement is four returns. The smaller the jurisdiction, the larger the number of returns required to ensure confidentiality. According to the Utah Tax Commission, to date, no county has had ten returns claiming a specific Enterprise Zone tax credit, therefore, information is only available for the state as a whole. Tax credits available through the enterprise zone program may be claimed either on individual or corporate income tax returns.

TAX RETURNS CLAIMING ENTERPRISE ZONE TAX CREDITS

INDIVIDUAL RETURNS

YR	#	TOTAL	AVE
2002	109	\$715,133	\$6561
2001	95	483,575	5090
2000	79	204,844	2593
1999	62	210,763	3399
1998	29	196,518	6776

CORPORATE RETURNS

YR	#	TOTAL	AVE
2002	21	\$278,871	\$13,280
2001	26	455,501	17,519
2000	25	423,082	16,923
1999	20	278,957	13,948
1998	13	104,214	8,016

TOTAL RETURNS

YR	#	TOTAL	AVE
2002	130	\$994,004	\$7646
2001	121	939,076	7761
2000	104	627,926	6038
1999	82	489,720	5972
1998	42	300,732	7160

Local data is often scant, since local zone administrators must rely on data from the Tax Commission, or gathering data directly from businesses in the zones. The latter would require a prohibitive amount of time for limited local staff. Moreover, businesses are not obligated to provide any requested information. As a result of this and the Tax Commission's data restrictions, a precise evaluation of the enterprise zone program is not possible. Qualitative responses from enterprise zone jurisdictions indicate there has generally been moderate activity in the program. Local administrators indicate that the program makes it easier to market their areas for business relocations and expansions and that the program has had a significant and positive economic development impact. Below is a list of businesses in selected enterprise zones with the number of jobs created, or estimated to be created, in parentheses. Where no figures are listed, data is not available, although jobs were created. The lists are not necessarily complete. These figures are representative of most enterprise zone jurisdictions.

Box Elder County/Tremonton

La-Z-Boy (250)

Malt-O-Meal (120)

ASP (60)

Autoliv

Intertape

Munn's Manufacturing

T & M Manufacturing

Box Elder/Honeyville/Fruitway Area

Alpine Gardens

Honeyville Grain

Scott Cabinetry

Willard Bay Gardens

Several value added fruit operations in the fruitway area

Juab County/Nephi

Kuhni's (40)

Sunset Rail (15)

Horizon Metals (12)

Intermountain Farmers (6)

Moroni Feed (4)

Tooele County/Grantsville

WalMart Distribution (400)

Uintah County/Vernal (see attached letter)

Total estimated impact in enterprise zones:

Businesses claiming credits – approximately 250 to 500

Investment - \$15,000,000 to \$20,000,000

Jobs created – approximately 1100 to 1700

The prospect of qualifying for Enterprise Zone tax credits played a significant role in the location decisions of WalMart in Grantsville, Malt O Meal and Intertape in Box Elder County, Delta Egg Farm in Millard County, Blue Mountain Medical Center in Blanding, Autometer in Ephraim and many other relocations and expansions.

HISTORIC CHANGES IN THE LAW

The 1996 legislation created an essentially new program, which took effect January 1, 1997. Enterprise Zone designations made under the 1988 law remained in effect until the last ones expired December 31, 1998. Under the 1996 law the number of areas eligible for zone designations was significantly increased. Cities, as well as counties may receive designations. No blanket designations of jurisdictions are made. Instead, counties and cities applying for designations must identify an area, or areas for which they seek designation and provide a rationale for the proposed zone, including references to local plans. The 1996 law also added several new, primarily job creation, tax credits and it substantially enhanced the existing investment tax credit.

During the 1998 Legislative Session, the law was again amended significantly. The most important change was the elimination of the Standard Industrial Classification (SIC) code restrictions. This essentially renders all businesses, except retail, public utilities, and construction jobs, eligible for the available tax credits. If a business is located in an officially designated zone, it may claim eligible tax credits on its corporate or individual tax form. Another 1998 change made Indian tribal land eligible for Enterprise Zone designations and Indian tribes eligible applicants.

The only important change made during the 1999 Utah Legislature was a clarifying correction under 9-2-413(5) making retail businesses and public utilities ineligible for all tax credits under the Utah Enterprise Zone Act. The language was changed from: “The tax credits under Subsections (1)(a) through (d) may not be claimed by a business engaged in retail trade or by a public utilities business.” to “The tax credits under Subsections (1)(a) through (g) may not be claimed by a business engaged in retail trade or by a public utilities business.” No changes were made during the 2000 Legislative Session.

In 2002, “Targeted Business Income Tax Credits within an Enterprise Zone” (Utah Code 9-2-1801) was added to the law. These credits are available to eligible businesses for up to \$100,000 per project with a maximum annual eligibility of \$50,000. These credits have a total statewide cap of \$300,000 per year. Eligible businesses must apply to the local enterprise zone administrator to obtain these credits. They are designed to assist businesses in the most economically distressed rural areas. The program is administered separately. See attachment E for a report on this program.

In 2004 the law was amended in Senate Bill 199 to eliminate the requirement that a zone not be located in a Metropolitan Statistical Area (MSA) used by the U.S. Bureau of the Census. This was a necessary response to changes made by the Census Bureau to MSA boundaries in Utah, which would have made several rural areas ineligible for enterprise zone designation.

CHANGES AND ISSUES FOR THE UPCOMING LEGISLATIVE SESSION

In order to achieve a comprehensive evaluation of the program, data on pertinent activity in the zones is required. As has been mentioned previously in this report, such data can only be obtained from businesses within the zones. Local zone administrators have not gathered the data effectively, in part, because of the time required to visit each business within the zone(s) in their jurisdictions and, in part, because businesses are not required to provide such confidential information.

It is recommended that the law be amended to require businesses to complete an application form in which they must indicate the credit(s) they are claiming. This information should be made available, confidentially, to DCED. The form should be developed together by DCED and the Tax Commission.

There are no other recommended changes for the 2005 Legislative Session.

For questions about this report, or for more information contact:

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ATTACHMENT A

UTAH ENTERPRISE ZONES

October 2004

Ballard, Uintah County (1/1/97 through 12/31/06)
Beaver City (1/1/03 through 12/21/07)
Beaver County (1/1/03 through 12/31/07)
Bicknell, Wayne County (1/01/00 through 12/31/04)
Blanding, San Juan County (1/1/99 through 12/31/03)
Box Elder County (Perry to Willard) (1/1/00 through 12/31/04)

Carbon County (1/1/98 through 12/31/07)
East Carbon (1/1/01 through 12/31/05)
Circleville, Piute County (1/1/99 through 12/31/03)

Duchesne County (1/1/99 through 12/31/03)
Duchesne County (amended) (1/1/00 through 12/31/04)

Emery County (1/1/99 through 12/31/03)
Ephraim, Sanpete County (1/1/97 through 12/31/06)
Escalante (1/1/02 through 12/31/2006)

Fairview (1/1/02 through 12/31/05)
Fillmore, Millard County (1/1/00 through 12/31/04)

Garfield County (1/1/02 through 12/31/06)
Grand County (1/1/98 through 12/31/07)
Grantsville, Tooele County (1/1/03 through 12/31/07)
Gunnison, Sanpete County (1/1/00 through 12/31/04)

Hanksville, Wayne County (1/01/00 through 12/31/04)
Helper, Carbon County (1/1/00 through 12/31/04)
Honeyville, Box Elder County (1/1/03 through 12/31/07)

Juab County (1/1/98 through 12/31/06)
Junction, Piute County (1/1/99 through 12/31/03)

Kanab, Kane County (1/1/99 through 12/31/03)
Kane County (1/1/97 through 12/31/06)
Kingston, Piute County (1/1/99 through 12/31/03)

Loa, Wayne County (1/01/00 through 12/31/04)

Marysvale, Piute County (1/1/99 through 12/31/03)
Milford, Beaver County (1/1/03 through 12/31/07)
Millard County (1/1/98 through 12/31/07)
Minersville, Beaver County (1/1/03 through 12/31/07)
Moab, Grand County (1/1/98 through 12/31/07)
Monticello, San Juan County (1/1/02 through 12/31/06)
Morgan County (1/1/99 through 12/31/03)
Moroni, Sanpete County (1/1/02 through 12/31/06)
Mt. Pleasant, Sanpete County (1/1/98 through 12/31/07)
Myton, Duchesne County (1/1/97 through 12/31/06)

Naples, Uintah County (1/1/99 through 12/31/03)
Nephi, Juab County (1/1/97 through 12/31/06)

Parowan, Iron County (1/1/97 through 12/31/06)
Piute County (1/1/99 through 12/31/03)
Price, Carbon County (1/1/00 through 12/31/04)

Rich County (1/1/98 through 12/31/07)
Richfield, Sevier County (1/1/97 through 12/31/06)
Roosevelt, Duchesne County (1/1/99 through 12/31/03)

Salina, Sevier County (1/1/98 through 12/31/07)
Sanpete County (1/1/98 through 12/31/07)

Tremonton, Box Elder County (1/1/98 through 12/31/07)
Tropic (1/1/02 through 12/31/06)

Uintah County (1/1/99 through 12/31/03)

Vernal, Uintah County (1/1/99 through 12/31/03)

Wayne County (1/1/00 through 12/31/04)
Wellington, Carbon County (1/1/00 through 12/31/04)

ATTACHMENT B

UTAH ENTERPRISE ZONE APPLICATION GUIDELINES

An eligible entity must submit an application for designation to the Utah Department of Community and Economic Development. The application should include a plan that is part of an economic development strategic plan and should include the following:

- 1) The economic development and enterprise zone plans should meet the basic plan criteria established by DCED. Among these are the following planning activities and elements:
 - a. Opportunities for public input throughout the planning process to obtain public support and consensus.
 - b. Community assessments, including local infrastructure and labor force.
 - c. Development of appropriate local zoning ordinances.
 - d. Identification of industrial areas that will receive enterprise zone benefits.
 - e. Goals and objectives for growth.
 - f. Action steps, including assignments and timetables.
 - g. Identification of resources necessary to implement the action steps.
 - h. Evaluation.
- 1) Designations will not cover entire counties or municipalities. Instead, applicants must identify an area or areas that they would like to have designated as an enterprise zone. The application should include a rationale for the designation, such as what industries are being targeted for the zone and why. The rationale should also show a clear tie to local planning.
- 3) Data about expected use and projected benefits of the enterprise zone. This information should include projections of the number of eligible businesses reasonably expected to claim credits, number of jobs reasonably expected to be created and wage levels expected, and amount of new investment reasonably expected.
- 4) Information about industry and job targeting.
- 5) Commitments from businesses.
- 6) Description and commitment of qualifying local contributions as outlined in UCA 9-2-405.
- 7) A copy of the county or municipal applicant's economic development strategic plan to show coordination between county, municipal, and zone goals.
- 8) The applicant's proposed means of assessing the effectiveness of its zone plan, programs, and activities.
- 9) The applicant's ability to implement the action steps of its plan.
- 10) Any additional information required by DCED.
- 11) Any additional information the county applicant or municipal applicant considers relevant to its designation.

ATTACHMENT C

UTAH ENTERPRISE ZONE ELIGIBILITY

All counties of the third through sixth class having populations of 50,000 or less are eligible for enterprise zone designation. All cities of 10,000 people or less within such counties are also eligible. All Indian tribal land is eligible, regardless of its location. Applications are reviewed and approved on the basis of economic development need, quality, a variety of economic distress factors outlined in the Utah Enterprise Zone Act, local planning, and other pertinent considerations.

Essentially, only Salt Lake, Utah, Davis, Weber, Cache, and Washington counties and the cities within those counties are ineligible to apply for designations. Since they exceed 10,000 people, Cedar City, Tooele City and Brigham City are ineligible, even though they are located in eligible counties.

Designations are for limited areas identified locally. Most designations cover specific areas zoned locally for industrial and commercial use.

ATTACHMENT D

TAX CREDITS FOR UTAH ENTERPRISE ZONES Effective January 1, 1997

The following tax credits may be claimed on state income tax forms by eligible businesses locating or expanding in enterprise zones:

JOB CREATION TAX CREDITS (may claim for up to thirty full time positions per tax year):

- 1) A \$750 tax credit for each new full time position filled for at least six months during the tax year.
- 2) An additional \$500 tax credit if the new position pays at least 125% of the county average monthly wage for the respective industry (determined by the Utah Dept. of Employment Security). In the event this information is not available for the respective industry, the position must pay at least 125% of the total average monthly wage in the county.
- 3) An additional \$750 tax credit if the new position is in a business that adds value to agricultural commodities through manufacturing or processing.
- 4) An additional \$200 tax credit, for two consecutive years, for each new employee insured under an employer sponsored health insurance program if the employer pays at least 50% of the premium.

OTHER TAX CREDITS

- 5) A tax credit (not to exceed \$100,000) of 50% of the value of a cash contribution to a 501(c)(3) private nonprofit corporation engaged primarily in community and economic development, and is accredited by the Utah Rural Development Council.
- 6) A tax credit of 25% of the first \$200,000 spent on rehabilitating a building which has been vacant for at least two years, and which is located within an enterprise zone.
- 7) An annual investment tax credit of 10% of the first \$250,000 in investment, and 5% of the next \$1,000,000 qualifying investment in plant, equipment, or other depreciable property.

All tax credits must be claimed within three years. Businesses closing operations in one rural area to locate in another rural area may not claim tax credits under this program. Construction jobs are not eligible for tax credits. Retail businesses and public utilities are not eligible to claim tax credits.

ATTACHMENT E

TARGETED BUSINESS INCOME TAX CREDIT PROGRAM

The Targeted Business Income Tax Credit Program was added to the Utah Enterprise Zone Act in 2002 to provide extended benefits to those enterprise zones located in the most depressed rural counties. Based on a qualifying criteria specified in the Act, enterprise zones located in Sanpete, Wayne, Piute, Garfield, San Juan, Emery and Carbon Counties are currently eligible. Businesses taking advantage of the Targeted Business Income Tax Credit in any given year are not allowed to take advantage of regular enterprise zone credits during that year. With the exception of retail businesses and public utilities, eligible businesses compete for an annual pool of \$300,000 in state income tax refundable tax credits. Applications are evaluated with 50% of the evaluation based on state and local tax revenue generation per job and 50% based on the total number of jobs. A company may qualify for an allocation of refundable tax credits of up to \$100,000 with no more than 50% of this allocation to be claimed in any single year.

Through 2004, twelve companies have been awarded an allocation of Targeted Business Income Tax Credits. These companies have committed to the creation of 182 jobs. For each quarter a company does not meet their goal, their tax credit allocation is decreased accordingly. These 182 jobs pay an average of \$25,315, well above the average for the eligible counties. The total amount of refundable tax credits committed to these jobs is \$987,530, which corresponds to a cost per job of \$5,426.

Jobs	Wage	Total Credit Allocation*	Cost Per Job
182	\$25,315	\$987,530	\$5,426

* Please note that the total credit allocation represents allocations through December 31, 2006. This is because companies can earn no more than 50% of their total possible allocation in any single year which results in potential allocations being carried forward to subsequent years. Please also note that the total credit allocation represents potential, but not actual costs to the State of Utah. Six of the twelve businesses to which allocations were awarded to date did not meet their goal for one or more quarters and consequently were penalized with a reduction in their total allocation.